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CANADIAN WESTERN BANK
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CURRENTS Western Canada's Monthly Economic Bulletin

October 2007 a CanadaWest Foundation publication

Monthly Highlights

The national unemployment rate went below 6% for the first time in nearly 33 years. A jump in service sector employment pushed Saskatchewan's unemployment rate down to 3.8%, the second lowest in the country.

Year to date growth in average weekly earnings in the West continued to outpace the national average except in BC.

Growth in earnings was higher than inflation in every province except Alberta, where the increase in average weekly earnings was offset by a rate of inflation that was more than two and a half times the national rate.

At 1.7%, Canada's inflation rate slowed to its lowest level since January. This can mainly be attributed to weaker gasoline prices. Alberta and Saskatchewan were the only two provinces where consumer prices rose faster than the national average. Housing costs continue to drive inflation in these two prairie provinces.

Compared to 2006, year to date retail sales are up 11.1% in Saskatchewan, 11.0% in Alberta, 9.0% in Manitoba, and 7.2% in BC. In the rest of Canada, the increase is a much lower 4.3%.

Unlike the US, where the declining housing market is a concern, the value of residential building permits shows that the Canadian market is healthy. The brisk pace of activity in Saskatchewan continues. It took only eight months for Saskatoon to eclipse the annual record value of building permits set last year.

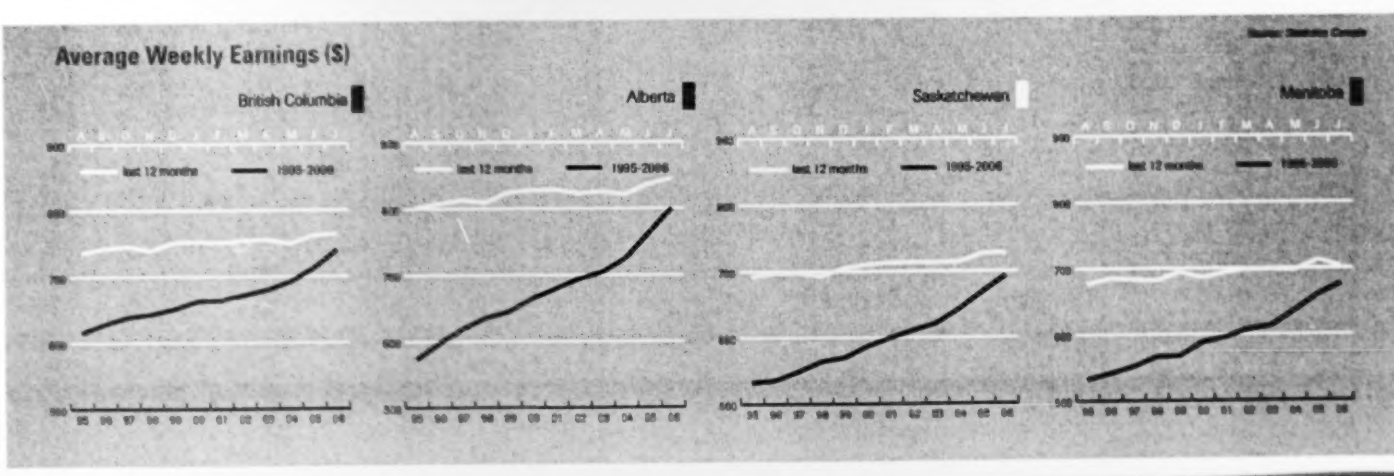
Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Employment (SA, 000s)	2,266.8	1,973.3	502.5	598.7	16,923.0	September
% change, yoy	2.9	4.8	1.0	1.8	2.5	
Unemployment rate (SA, %)	4.3	3.6	3.8	4.2	5.9	September
Participation rate (SA, %)	66.1	74.1	69.3	69.4	67.5	September
Average weekly earnings (SA, $)	764.50	844.90	727.42	703.00	773.32	July
% change, Jan-July 2007 average, yoy	2.5	4.7	3.8	4.1	3.2	
CPI inflation, annual (%)	1.3	4.7	2.4	1.4	1.7	August
Building permits: residential (SA, $ millions)	682.9	808.0	73.4	92.7	3,888.0	August
% change, Jan-Aug 2007, yoy	20.3	10.6	88.5	17.8	10.8	
Building permits: non-residential (SA, $ millions)	330.5	495.8	104.8	26.1	2,403.4	August
% change, Jan-Aug 2007, yoy	13.4	32.1	10.2	6.5	24.5	
Housing starts (SAAR, 000s)	37.5	47.9	5.2	6.7	226.5	August
% change, Jan-Aug 2007, yoy	-0.7	2.7	62.0	14.0	-4.2	
Retail trade (SA, $ millions)	4,734	5,210	1,079	1,179	34,333	July
% change, Jan-July, yoy	7.2	11.0	11.1	9.0	8.0	
Wholesale trade (SA, $ millions)	4,703	5,480	1,251	1,077	44,144	July
% change, Jan-July, yoy	6.6	5.4	21.1	8.4	5.4	
Manufacturing shipments (SA, $ millions)	3,461	5,705	878	1,346	50,008	July
% change, Jan-July, yoy	[illegible]	3.7	-1.4	13.2	0.3	

Source: Statistics Canada. yoy=year-over-year; SA=seasonally-adjusted; SAAR=seasonally-adjusted at annual rates

CanadaWest FOUNDATION

Our Vision
A dynamic and prosperous West in a strong Canada.

Our Mission
A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces, the territories, and all Canadians.



Did you know?

- Vehicles in Canada drive a total of more than 85 billion kilometres from July to September.
- Canadians drank 85 litres of soft drinks per capita last year.
- Canada's per capita gross national income is 19 times higher than China and 45 times higher than India.
- Saskatchewan has produced more NHL players per capita than any Canadian province, American state, or European country.
- Alberta was the only province in 2006 that had more men than women.
- The life expectancy at birth of Canadians is 80 years, compared to 47 in Afghanistan.
- The number of Canadians receiving regular Employment Insurance benefits dropped 10% from 2002 to 2006.

City in Profile: Kelowna, British Columbia

Located 150 kilometres north of the US border and 395 kilometres east of Vancouver, Kelowna is the largest city in BC's Okanagan Valley. The city's population increased nearly 11% between the 2001 and 2006 Census, more than double the provincial rate. The 2006 Census found that 106,707 people called Kelowna home.

Kelowna has a high percentage of seniors among its population, as the warm climate and big city amenities make it an attractive place to retire. According to the 2006 Census, 19.4% of the city's population was 65 years or older, compared to 13.7% Canada wide.

Kelowna has grown into the economic centre of the Okanagan Valley. Best known for agriculture, forestry and tourism, its economy has diversified to include light industrial, manufacturing and high tech activity. The creation of UBC Okanagan has attracted new professionals and business investment to the city as well.

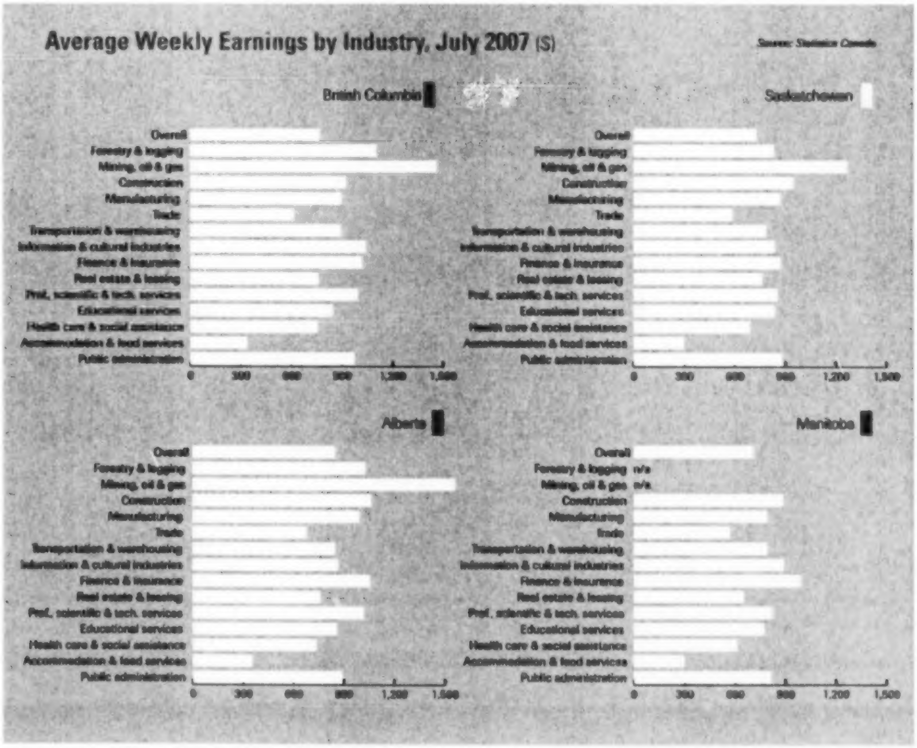
A $36 million expansion was recently announced for the Kelowna International Airport, the 11th busiest airport in Canada.

Vineyard in the hills of Kelowna, British Columbia

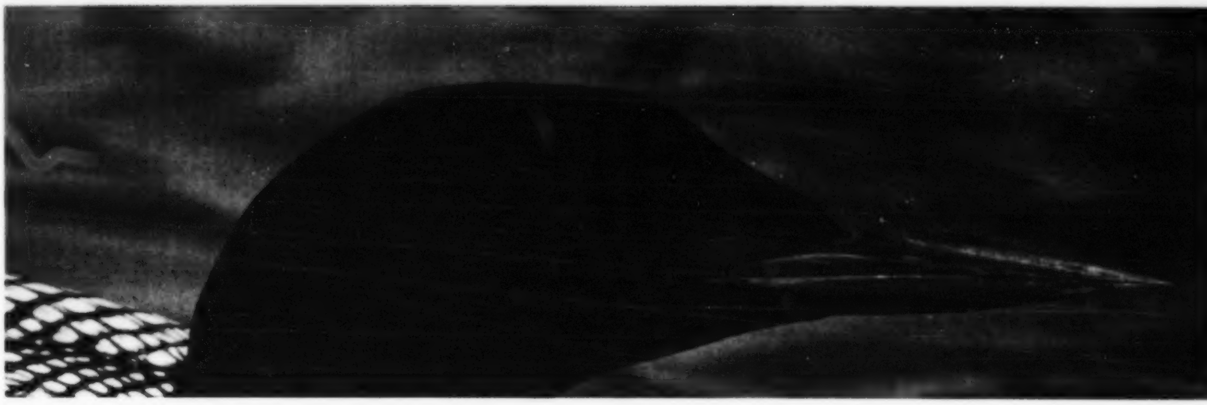
Behind the Numbers

Looking beneath overall average weekly earnings, it is clear that there is considerable variability in earnings across industries. Industries with the highest earnings include mining, oil and gas; finance and insurance; construction; forestry and logging; and professional, scientific and technical services. Average weekly earnings in Alberta's mining, oil and gas sector are double the overall national average.

Mining, oil and gas; construction; and professional, scientific and technical services have experienced significant increases in total employment. These relatively high paying sectors account for roughly 30% of total employment growth in the West since 1990. On the other hand, approximately 20% of total employment growth since 1990 has occurred in trade and accommodation and food services, two relatively low paying sectors.



MONTHLY FEATURE



The Rise of the **Mighty** Canadian Dollar

The Canadian dollar has been on quite a ride in the past five years. In 2002, it spent most of its time below 65 cents US. The Loonie's ascent began in 2003, when it appreciated by nearly 20%. Another surge in the second half of 2004 brought it to nearly 85 cents. Throughout 2006, the dollar traded between 85 and 90 cents US. At the end of January of this year, it was just below 85 cents. On September 20, it reached parity with the US dollar for the first time since 1976.

There are many factors behind the rise in the Canadian dollar. The most obvious domestic influence is the overall health of the Canadian economy. The strong economy has made Canada an attractive place in which to invest. When investors are confident in the Canadian economy, they are more likely to buy Canadian assets, pushing up the dollar's value.

Economic conditions outside Canada also play a major role in determining the value of the Canadian dollar. Just as a relatively strong Canadian economy has had a positive effect on the Canadian dollar, weakness south of the border has had a negative effect on the US dollar.

Also, the strong global economy has driven up the demand for basic commodities. Because Canada is a large producer and exporter of resources, the performance of the Loonie is correlated to the strength of world commodity prices. When commodity prices are high, resource-based industries are more profitable, making the economy stronger and placing upward pressure on the Loonie.

The full effect of a strong dollar is far from straightforward, and it has wide ranging implications. Compared to most other countries, international trade is a relatively large part of the Canadian economy. And since most of Canada's trade is with the US, the value of Canadian dollar vis-a-vis the American dollar is highly important.

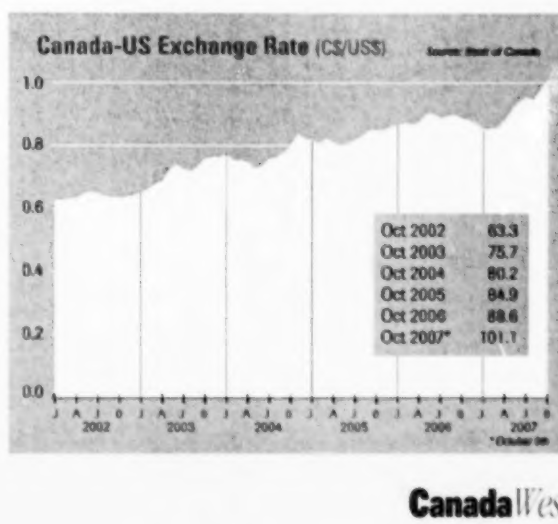
The effect of the dollar's value differs by industry and region, so the overall impact can be difficult to sort out. In general, a rising dollar lowers demand for the goods and services produced by export oriented industries. At the same time, consumers gain from cheaper imports and some firms may step up investment in imported machinery and equipment. Overall, economic studies find that the net effect of the strong dollar is negative for economic growth in Canada as a whole.

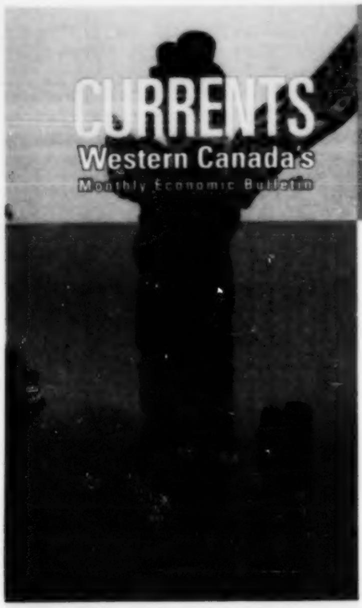
Sectors of the economy that are largely focused on the domestic market tend to benefit from the strong dollar. These include financial services, personal services, construction, and retail.

The manufacturing sector is the best known of the sectors that is hurt by the strong dollar. After several years of experience dealing with a strong dollar, many firms have improved their operations and are better able to cope with the pressure of the higher dollar. This may help explain why the negative effects of the dollar's rapid climb have been less pronounced than many analysts anticipated.

The higher dollar also hurts commodity producers. Many commodities are exported to the US, and many commodities are priced in US dollars. When revenues are converted to Canadian funds, producers simply get less. Therefore, the strong Loonie offsets the benefits of higher commodity prices.

Where the Loonie is headed from here is difficult to predict. However, the current economic conditions at home, in the US and globally suggest that it is unlikely that the Canadian dollar will retreat in the near term.





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Are Canadian consumers getting ripped-off?

by Brett Gartner, Senior Economist and Matt Quail, Intern

The strong economy has boosted consumer confidence and people in the West haven't been afraid to spend some of their hard-earned money. As a result, retailers across the West are doing pretty well.

But, now that the Loonie has hit parity with the US dollar, retailers are starting to hear some customers muttering under their breath as they open their wallet. You can probably guess what they are complaining about.

There is convincing evidence that prices here are not in line with prices in the US. From books to cars, prices in Canada are often substantially higher than those in the US.

There has been much ballyhoo about substantial price discrepancies between seemingly identical vehicles. A Toronto law firm has jumped into the melee by launching a class action suit against major auto makers and dealers, claiming that they have teamed up to fix prices 25% to 35% higher in Canada than in the US.

So, what's the deal? Are we getting ripped-off?

In many cases, the extent of the gap seems to defy explanation. This is especially true for vehicles. High-end car manufacturer Porsche has already indicated that they will "listen to the market" and reduce prices on its 2008 Canadian models by 10%. This is an encouraging sign that other manufacturers have room to move.

However, there are some legitimate reasons why Canadian prices are higher and why they haven't adjusted rapidly.

Retailers order goods well in advance. This has the effect of delaying the pricing decreases, as retailers purchased much of their stock when the Loonie was not quite as mighty. Remember, as recently as January, the dollar was trading at just below 85 cents US.

Expenses such as wages, rent, energy and property taxes are in Canadian funds and are not immediately or directly affected by the rising dollar.

Many operating costs are higher in the Canadian market. American companies are able to take advantage of economies of scale that are not available to Canadian firms because the US population is 10 times larger. And, because Canada's population is spread out over a much larger area, transportation costs are higher.

Marketing costs are higher because many things must be done in both official languages. The minimum wage is generally higher in Canada and employers here are facing labour shortages. As a result, Canadian retailers have larger payrolls compared to their counterparts south of the border.

And last but not least, taxes are higher in Canada.

Given these structural differences between the US and Canada, it is unreasonable to expect that we'll pay the exact same price as Americans on identical goods. It is also unreasonable to expect prices to fall instantaneously.

However, this wide gap in prices cannot be completely explained away. In fact, economic research has been done that suggests that these and other factors don't even come close to explaining the full extent of the gap.

At some point, consumer prices should come down.

It has been said that retailers "price to the Canadian market." Consumer demand is strong even at high prices so retailers have no incentive to lower them.

Forgive us for bringing this up so early, but the Christmas shopping season is not all that far away. This could be the perfect opportunity for consumers to exert some pressure on retailers.

Do your homework before you hit the stores. Go online and check the US dollar cost of comparable products. When you find a product that is much cheaper, tell your local retailer about it. Try haggling on larger purchases. Perhaps you can get a better price. If enough people gripe, retailers just might begin to listen.

You also have the option to vote with your wallet. Online shopping is easy and convenient. Not only is there the potential to save money by buying from US based online retailers, you can avoid the crowds at the shopping mall.

None of us should hold our breath waiting for dramatic price reductions. It will take a while for things to change. In the mean time, taking matters into your own hands should, at the very least, make you feel better. ■

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